1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

a. Reporting Entity –

The state government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are county governments and 351 cities and towns exercising the functions of local governments. During fiscal year 1999, two counties were abolished and absorbed by the Commonwealth. In fiscal year 2000, one county and two County Registry of Deeds will be abolished and absorbed by the state government.

For financial reporting purposes, the Commonwealth has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 34 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

Blended Component Units – Blended component units are entities which are legally separate from the Commonwealth, but are so related to the Commonwealth that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The following Component Units are blended within the Primary Government:

(1) The Pension Reserves Investment Trust Fund (PRIT) was created in 1984, through General Laws Chapter 661 of the Acts of 1983 as amended by the Acts of 1987. PRIT is the investment portfolio for the assets of the Pension Trust Funds. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board.

In addition, the following entities are blended into the discretely presented university and college and fund type:

(2) The Massachusetts State College Building Authority provides dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth. The building authority is governed by a board comprised of members appointed by the Governor.

(3) The University of Massachusetts Building Authority provides dormitories, dining commons and other buildings and structures for the use of the University of Massachusetts and its students and staff; it is governed by a nine-member board appointed by the Governor.

(4) The University of Massachusetts Foundation, Inc. fosters and promotes the growth, progress and general welfare of the University of Massachusetts. It is governed by a twenty-seven member board of directors nominated by the President of the University of Massachusetts and approved by the board. The President, the five campuses' Chancellors and the Treasurer of the University are ex-officio members.

(5) The Worcester City Campus Corporation, doing business as Umass Health System including Worcester Foundation for Biomedical Research, Inc, a subsidiary, is a not-for-profit organization founded for the purpose of fostering and promoting growth, progress and the general welfare of the University. The University of Massachusetts acting through its Board of Trustees is the sole corporate member of the UMass Health System, which is governed by a nine-member board of directors.

(6) The University of Massachusetts Dartmouth Foundation, Inc. incorporated as a charitable corporation, under Massachusetts General Laws, whose primary purpose is to render financial assistance to educational programs of the University. It is governed by a twenty-five member board nominated and appointed by the board.

During fiscal year 1998 certain activities of the Clinical Service Division of the University of Massachusetts (which is comprised of the University of Massachusetts Medical School Teaching Hospital Trust Fund, University of Massachusetts Medical School – Group Practice Plan, and the University of Massachusetts Medical Center Self Insurance Trust) and UMass Health Systems were contributed to and merged with and into a Massachusetts not-for-profit corporation named UMass-Memorial Health Care, Inc. UMass-Memorial Health Care, Inc. is not a component unit of the University of Massachusetts or the Commonwealth.

Discrete Component Units – Discrete component units are entities which are legally separate from the Commonwealth, but are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Component Units column of the combined financial statements include the financial data of the following entities:

(1) The Massachusetts Bay Transportation Authority (MBTA) operates mass transit facilities within the Greater Boston metropolitan area, which consists of 78 cities and towns. The MBTA is overseen by a seven-member board of directors of which six are appointed by the Governor. The Commonwealth guarantees the debt of the MBTA and funds deficiencies in the net cost of service.

(2) The Massachusetts Turnpike Authority (MTA) operates the Massachusetts Turnpike and the Sumner - Callahan - Williams Tunnels. The MTA is governed by three members each appointed by the Governor. The Commonwealth guarantees debt of the MTA. The MTA is legally required to use the calendar year for their fiscal reporting cycle.

(3) The Regional Transit Authorities (RTAs) provide transportation to areas not serviced by the MBTA. The RTAs are fiscally dependent on the Commonwealth as evidenced from the need for approval by the Secretary of the Executive Office of Transportation and Construction before a RTA can issue bonded debt. In addition, the Commonwealth subsidizes a minimum of 50% of the net cost of service for the RTAs. There are 15 RTAs as follows:

- Berkshire Regional Transit Authority
- Brockton Area Transit Authority
- Cape Ann Transportation Authority
- Cape Cod Regional Transit Authority
- Franklin Regional Transit Authority
- Greater Attleboro/Taunton Regional Authority
- Greenfield-Montague Transportation Area
- Lowell Regional Transit Authority
- Martha's Vineyard Transit Authority
- Merrimack Valley Regional Transit Authority
- Montachusett Regional Transit Authority
- Nantucket Regional Transit Authority
- Pioneer Valley Transit Authority
- Southeastern Regional Transit Authority
- Worcester Regional Transit Authority

(4) The Massachusetts Water Pollution Abatement Trust (MWPAT) provides a combination of federal and Commonwealth funds for water pollution abatement projects. MWPAT is governed by a three member board of directors that includes the State Treasurer, Commissioner of the Department of Environmental Protection and the Secretary of the Executive Office for Administration and Finance.

(5) The Massachusetts Convention Center Authority (MCCA) manages the operation of the John B. Hynes Veterans Memorial Convention Center, the Boston Common Parking Garage and the Springfield Convention Center. The MCCA also manages Springfield Symphony Hall. The MCCA is governed by a thirteen-member board of directors, which includes nine members appointed by the Governor. The Commonwealth provides grants to fund annual debt service of the bonds issued and subsidies to fund annual operating deficits.

(6) The Massachusetts Development Finance Agency (MDFA) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, as well as blighted, decadent or substandard property for the purpose of stimulating economic development and to provide housing to low and moderate income persons. The MDFA is governed by a board of directors comprised of eleven members including the Commissioner of Administration, the Secretary of Communities and Development and nine appointments made by the Governor. The MDFA is authorized to issue up to $50,000,000 of general obligation bonds and the Commonwealth also provides subsidy assistance. The MDFA also requires Commonwealth approval to issue bonded debt. On September 30, 1998 the Government Land Bank merged with The Massachusetts Industrial Finance Agency, a related organization, to create Massachusetts Development Finance Agency.

(7) The Massachusetts Technology Park Corporation (MTPC) manages the expansion of industrial and commercial activity and employment opportunities in the Commonwealth which support firms to maintain, expand and locate their business activities within the Commonwealth and thereby create and retain increased and more rewarding employment opportunities for citizens of the Commonwealth. MTPC also manages a segregated trust fund. The purpose of the trust fund is to generate the maximum economic and environmental benefits over time from renewable energy to the ratepayers of the Commonwealth by promoting the increased availability, use, and affordability of renewable energy and related enterprises, institutions, and projects.

MTPC is governed by a board of directors comprised of twenty-three members including the Secretary of Economic Affairs, the Secretary of Administration and Finance, the Chancellor of the Board of Regents and twenty appointments made by the governor. The Commonwealth provides funds to MTPC to support economic development programs administered by the Organization.

In fiscal year 1999, the MTPC changed to the use of governmental funds as its primary funds due to the recognition of change in its funding sources.

Economic Development Authorities –

(8) The Massachusetts Community Development Finance Corporation (MCDFC) provides community development in economically depressed areas in Massachusetts. The MCDFC is governed by a board of directors comprised of nine members including the Secretary of Economic Development, Secretary of Communities and Development, the Secretary for Administration and Finance and six appointments made by the Governor. The Commonwealth owns all of the common stock of the corporation.

(9) Corporation for Business, Work and Learning (CBWL) provides services that promote business modernization, economic growth and opportunities for gainful and fulfilling employment. CBWL is governed by a nineteen-member board of Directors, which includes the Director of Economic Development and the Director of the Department of Labor and Workforce development. The entity is funded with Commonwealth grants.

(10) The Massachusetts International Trade Council, Inc. (MITC) stimulates export development through export assistance programs and promotion of foreign investment in Massachusetts industries. The entity is funded with Commonwealth grants. The governor appoints the two-member board.

(11) The Community Economic Development Assistance Corporation (CEDAC) provides development assistance to nonprofit corporations to expand the supply of affordable housing and to foster the revitalization of economically distressed areas. The Governor appoints the nine-member board of directors. The Commonwealth can impose its will on the entity as the Commonwealth approves the loans issued by CEDAC, therefore, controlling the level of services, projects, and activities the entity provides.

(12) The Massachusetts Corporation for Education Telecommunications (MCET) operates a statewide telecommunication network for the Commonwealth public and private sector to improve the quality of education. MCET is governed by a board of directors comprised of eighteen members of which twelve are appointed by the Governor. The Corporation receives grants from the Commonwealth to fund its programs.

(13) The Massachusetts Housing Partnership (MHP) addresses local needs for affordable housing and neighborhood development through group effort of the public and private sectors and state and local government. The entity is governed by a seven-member board of directors of which two members are appointed by the Governor, one member is the Secretary for Administration and Finance and one is the Secretary of Communities and Development. The Commonwealth provides funding to MHP.

(14) The Commonwealth Zoological Corporation, doing business as Zoo New England, manages Franklin Park Zoo and the Walter D. Stone Memorial Zoo. The Corporation's eleven-member board is appointed by the Governor. The Commonwealth subsidizes a substantial portion of the operations of the zoos.

Availability of Financial Information for Component Units and Individual Institutions of Higher Education -

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices.

Discretely presented component units condensed financial statements are included in the component unit columns of

the general purpose financial statements.

The following component units were audited by Deloitte & Touche LLP:

Discretely Presented:

Massachusetts Technology Park Corporation
75 North Drive
Westborough, MA 01581

The following discretely presented component units were audited by auditors other than Deloitte & Touche LLP:

Berkshire Regional Transit Authority
67 Downing Industrial Park
Pittsfield, MA 01201

Brockton Area Transit Authority
70 School Street
Brockton, MA 02401

Cape Ann Transportation Authority
P. O. Box 511
Gloucester, MA 01931

Cape Cod Regional Transit Authority
585 Main Street, P. O. Box 2006
Dennis, MA 02638

Community Economic Development
Assistance Corporation
18 Tremont Street
Suite 1020
Boston, MA 02108

Commonwealth Zoological Corporation
1 Franklin Park
Boston, MA 02121

Corporation for Business, Work and Learning
The Schrafft Center
529 Main Street
Boston, MA 02129

Franklin Regional Transit Authority
474 Main Street
Greenfield, MA 01301

Greater Attleboro/Taunton Regional Authority
7 Mill Street
Attleboro, MA 02703

Greenfield-Montague Transportation Area
382 Deerfield Street
Greenfield, MA 01301

Lowell Regional Transit Authority
145 Thorndike Street
Lowell, MA 01852

Martha's Vineyard Transit Authority
P. O. Box 5099
Edgartown, MA 02539

Massachusetts Bay Transportation Authority
Ten Park Plaza
Boston, MA 02116

Massachusetts Community Development Finance Corporation
10 Post Office Square, Suite 1090
Boston, MA 02109

Massachusetts Convention Center Authority
900 Boylston Street
Boston, MA 02115

Massachusetts Development Finance Agency
75 Federal Street
Boston, MA 02110

Massachusetts Housing Partnership
2 Oliver Street
Boston, MA 02109

Massachusetts International Trade Council, Inc.
10 Park Plaza, Suite 3720
Boston, MA 02116

Massachusetts Turnpike Authority
Ten Park Plaza, Suite 4160
Boston, MA 02116

Massachusetts Water Pollution Abatement Trust
C/O Office of the State Treasurer
One Ashburton Place, 12th Floor
Boston, MA 02108

Merrimack Valley Regional Transit Authority
85 Railroad Avenue
Bradford, MA 01835

Montachusett Regional Transit Authority
Rear 1427 Water Street
Fitchburg, MA 01420

Nantucket Regional Transit Authority
16 Broad Street
Nantucket, MA 02554

Pioneer Valley Transit Authority
2808 Main Street
Springfield, MA 01107

Southeastern Regional Transit Authority
25 North Sixth Avenue
New Bedford, MA 02740

Worcester Regional Transit Authority

287 Grove Street
Worcester, MA 01602

The following blended component units have been audited by firms other than Deloitte & Touche LLP:

Included in the Pension Trust Funds:

Pension Reserve Investment Trust Fund
125 Summer Street, 10th Floor
Boston, MA 02110

Included in the University and College Fund Type:

Massachusetts State College Building Authority
75 Park Plaza, P.O. Box 5
Boston, MA 02116

University of Massachusetts Building Authority
100 Venture Way, 2nd Floor
Hadley, MA 01035

University of Massachusetts Dartmouth
Foundation, Inc.
Old Westport Road
North Dartmouth, MA 02747

University of Massachusetts Foundation, Inc.
One Beacon Street, 26th Floor
Boston, MA 02108

Worcester City Campus Corporation (UMASS Health System)
University of Massachusetts Worcester
55 Lake Avenue North
Worcester, MA 01655

The following institutions of higher education were audited by firms other than Deloitte & Touche LLP:

Berkshire Community College
1350 West Street
Pittsfield, MA 01201

Bridgewater State College
131 Grove Street
Bridgewater, MA 02324

Bristol Community College
777 Elsbree Street
Fall River, MA 02720

Bunker Hill Community College
New Rutherford Avenue
Charlestown, MA 02129

Cape Cod Community College
2240 Iyanough Road
West Barnstable, MA 02668

Fitchburg State College
160 Pearl Street
Fitchburg, MA 01420
Framingham State College
100 State Street
Framingham, MA 01701

Greenfield Community College
One College Drive
Greenfield, MA 01301

Holyoke Community College
303 Homestead Avenue
Holyoke, MA 01040

Massachusetts Bay Community College
50 Oakland Avenue
Wellesley, MA 02181

Massachusetts College of Art
621 Huntington Avenue
Boston, MA 02115

Massachusetts College of Liberal Arts
375 Church Street,
North Adams, MA 01247

Massachusetts Maritime Academy
101 Academy Drive
Buzzards Bay, MA 02532

Massasoit Community College
One Massasoit Boulevard
Brockton, MA 02402

Middlesex Community College
33 Kearney Square
Lowell, MA 01852

Massachusetts State College Building Authority
75 Park Plaza, P.O. Box 5
Boston, MA 02116

Mount Wachusett Community College
444 Green Street
Gardner, MA 01440

North Shore Community College
One Ferncroft Road
Danvers, MA 01923

Northern Essex Community College
100 Elliot Street
Haverhill, MA 01830

Quinsigamond Community College
670 West Boylston Street
Worcester, MA 01606

Salem State College
352 Lafayette Street

Salem, MA 01970

Springfield Technical Community College
One Armory Square, P. O. Box 9000
Springfield, MA 01101

University of Massachusetts
100 Venture Way, 2nd Floor
Hadley, MA 01035

Westfield State College
577 Western Avenue
Westfield, MA 01086

Worcester State College
486 Chandler Street
Worcester, MA 01602

The following institution of higher education did not have an audit performed:

Roxbury Community College

The following External Investment Trust was audited by a firm other than Deloitte & Touche, LLP:

Massachusetts Municipal Depository Trust
Office of the State Treasuer
One Ashburton Place, 12th Floor
Boston, MA 02108

The following Expendable Trust was audited by Deloitte & Touche, LLP:

Commonwealth of Massachusetts Deferred Compensation Plan
C/O Office of the State Treasurer
One Ashburton Place, 12th Floor
Boston, MA 02108

The following are "related organizations" under GASB No. 14, "The Financial Reporting Entity": Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's accountability does not extend beyond the appointments.

b. Fund Accounting –

The Commonwealth reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Account groups are accounting entities used to provide accountability for the Commonwealth's general fixed assets and general long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

The Commonwealth has established the following fund categories (further divided by fund types), and account groups:

Governmental Funds – account for the general governmental activities of the Commonwealth.

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

Capital Projects Funds account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general and special obligation bonds and federal reimbursements.

Proprietary Funds – include Internal Service Funds which account for the financing of services provided by one department or agency to other departments or agencies, or to other governmental units.

Fiduciary Funds – account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds account for trusts whose principal cannot be spent.

Pension Trust Funds account for net assets held in trust for the State Employees' and Teachers' Retirement Systems.

External Investment Trust Fund accounts for the portion of pooled cash held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

University and College Funds – account for the activities specific to the operation of the Commonwealth's public institutions of higher education, including its medical school.

Current Funds are comprised of unrestricted funds which may be used at the discretion of the individual institution's governing bodies and restricted funds which must be utilized for specific purposes established by others.

Loan Funds account for resources available to make loans to students, faculty and staff.

Endowment and Similar Funds are comparable to trust funds, and they must be administered according to the terms of specific agreements.

Plant Funds account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

Account Groups – establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group accounts for general fixed assets and capital leases of the Commonwealth, excluding the fixed assets of the Proprietary Funds, University and College Fund and the discretely presented Component Units.

The General Long-term Obligations Account Group accounts for long-term bonds and notes issued by the Commonwealth, school construction grants, capital leases, compensated absences, and other long-term obligations, excluding the liabilities of the University and College Fund, the discretely presented Component Units and the Proprietary Funds.

Component Units – account for the activity of the entities that are separate from the primary government but are financially accountable to the Commonwealth. The Component Units are discretely presented in the general purpose financial statements.

c. Measurement Focus and Basis of Accounting –

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. In addition, the discretely presented component unit MTPC is accounted for on the current financial resources and modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Proprietary Funds, Nonexpendable Trust, External Investment Trust and Pension Trust Funds and discretely presented Component Units, except for MTPC governmental activities, are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds and component units that use proprietary fund accounting, the Commonwealth applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the foundations.

Statutory (Budgetary) Accounting – The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, but is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end. Deeds excise taxes are recognized at the time of collection by the counties and the Commonwealth.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year end.

The Commonwealth has separately published its audited "Statutory Basis Financial Report" for the fiscal year June 30, 1999, dated October 21, 1999.

d. Cash and Short-Term Investments and Investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost or amortized cost, which approximates fair value. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law. Investments are carried at fair value.

The Pension Trust Funds, with investments totaling approximately $26,884,071,000, at fair value, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. For investments traded in an active market, the fair value of the investment will be its market price. The Pension Trust Funds include investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leveraged buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentrations of credit risk exist if a number of companies in which the Fund has invested, are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 1999, the estimated fair values, determined by management with input from the investment managers, of these real estate and alternative investments were approximately $2,481,029,000 in the Pension Trust Funds, representing 6.4%, of the total assets of the Fiduciary Fund Type.

The Commonwealth maintains a short-term investment pool established by the State Treasurer on June 8, 1977 through a Declaration of Trust. The investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's share are reported as short-term investments within their respective reporting categories. The various local governments and other political subdivisions share of approximately $2,100,546,000 is reported as an External Investment Trust within the Fiduciary Fund Type. The June 30, 1998 share of approximately $1,622,056,000 was reported as a short-term investment and an agency fund liability. The change in presentation is considered a change in reporting to more clearly reflect the Trust's fiduciary responsibilities for these external pool amounts.

Included in the discretely presented Component Units is approximately $9,487,000 in investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value. Investments of the Commonwealth's Employees Deferred Compensation Plan are carried at fair value.

e. Securities Lending Program –

The Pension Trust Funds participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the market value of the security borrowed. At June 30, 1999, the market value of the securities on loan from PRIT was approximately $1,292,000,000. The value of the collateral held by PRIT amounted to approximately $1,394,000,000 at June 30, 1999. The PRIT trust securities on loan were collateralized at all times by U.S. Treasury securities of at least 100% of the value of the loaned securities. The collateral securities cannot be pledged or sold by PRIT unless the borrower defaults. The securities lending agents indemnify PRIT in the event that the agents fail to return the securities lent or if the collateral is inadequate to replace the securities lent. PRIT does not believe it has credit risk exposure to the borrower because the amounts PRIT owes the borrower exceeds the amounts the borrower owes PRIT. The securities on loan are included in investments at fair value as of June 30, 1999 in the combined balance sheet.

f. Receivables –

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government." The receivables in the University and College Fund and Component Units column are amounts that have arisen in the normal course of operations.

g. Due From Cities and Towns -

Represents reimbursement due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

h. Inventories and Other Assets -

Inventories included in the Governmental Fund Types represent food stamps on hand and are stated at face value.

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Inventories included within the University and College Fund Type and the Component Unit column are stated at the lower of cost (using the first-in, first-out method), or market (on the purchase or consumption method).

i. Fixed Assets -

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

The Commonwealth capitalizes all land except land associated with infrastructure. It capitalizes buildings, equipment, and computer software with costs in excess of $15,000 at the date of acquisition and with expected useful lives of greater than one year. Interest incurred during construction is not material and it is not capitalized. Public domain general fixed assets and infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) are not capitalized. No depreciation is provided on general fixed assets.

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. All land and library collections are capitalized. The University of Massachusetts and state colleges capitalize all other fixed assets with costs in excess of $1,000. The community colleges capitalize all other fixed assets with costs in excess of $15,000 consistent with the Commonwealth's fixed asset policy. No provision for depreciation is recognized except for depreciation recorded on the University of Massachusetts Foundation, Inc. and the University of Massachusetts Dartmouth Foundation, Inc. fixed assets, which are depreciated on a straight-line basis over the estimated useful lives of the assets.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized.

The estimated useful lives of fixed assets are as follows:

Structures and improvements...................3 - 60 years
Equipment, furniture,
fixtures and vehicles............................3 - 25 years

j. Interfund/Intrafund Transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are

classified as "Due from other funds" or "Due to other funds" on the balance sheet.
Receivables and payables resulting from transactions between Component Units and the primary government are classified as "Due to/from primary government" or "Due to/from component units."

k. Fringe Benefit Cost Recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees' group health insurance and worker's compensation activity are accounted for through the Internal Service Funds.

l. School Construction Grants Payable -

The Commonwealth, through legislation, is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. The amounts expected to be liquidated with available financial resources are reported as expenditures in fund liabilities. The long-term portion of this liability is recorded in the General Long-Term Obligations Account Group.

m. Compensated Absences -

For Governmental Funds, Expendable Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the University and College Funds and the discretely presented Component Units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

n. Lottery Revenue and Prizes -

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

o. Risk Financing -

The Commonwealth does not insure for employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employee's workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees. The Internal Service Funds account for workers' compensation and group insurance risk financing activities.

p. Fund Balances -

The Commonwealth reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances have been reserved as follows:

"Reserved for continuing appropriations" – identifies unexpended amounts in appropriations which the Legislature has specifically authorized to be carried into the next fiscal year.

"Reserved for tax reduction" – identifies the amount set aside according to Section 6 of Chapter 29B of the General Laws and an amount set aside in the Tax Exemption Escrow Trust Fund to fund the Fiscal Year 1998 portion of permanent tax reductions authorized by Chapter 175 of the Acts of 1998. The amount can only be used to reduce personal income taxes as provided in the Chapter.

"Reserved for Commonwealth stabilization" – identifies amounts set aside according to Section 5C of Chapter 29 of the General Laws.

"Reserved for employees' pension benefits" – identifies the net assets of the Commonwealth's public employee retirement systems which cannot be used for any other purpose.

"Reserved for deferred compensation" – identifies amounts held for employees payment of deferred compensation in accordance with Internal Revenue Service Code Section 457.

"Reserved for unemployment benefits" – identifies amounts reserved for payment of unemployment compensation.

"Reserved for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 2O of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991 and Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998.

"Reserved for nonexpendable trusts" – identifies amounts being held by the Commonwealth on behalf of third parties for which only the interest can be expended.

"Reserved for capital projects" – identifies amounts reserved for capital projects.

"Reserved for investment pool participants" – accounts for assets held for governmental entities and other local governmental and political subdivisions, in an external investment trust.

q. Total Columns – Memorandum Only –

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position, results of operations or cash flows. Interfund elimination's have not been made in the aggregation of this data.

r. Reclassifications -

For the fiscal year ended June 30, 1999, certain reclassifications have been made to the 1998 balances to conform to the presentation used in 1999. Certain amounts in the separately issued Component Units financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

s. Change in Reporting -

The Commonwealth maintains a short-term investment pool (Trust) established by the State Treasurer on June 8, 1977 through a Declaration of Trust. The investments are carried at amortized cost, which approximates fair value, and are reported by the primary government and component units as short-term investments within their reporting categories. Investments of approximately $2,112,250,000 belonging to various local governments and other political subdivisions of the Commonwealth are reported as an External Investment Trust within the Fiduciary Fund Type at June 30, 1999. Prior to June 30, 1999, such amounts were reported as an agency fund liability. Beginning fund balance of the External Investment Trust has been restated by approximately $1,622,056,000 to reflect this change. This change in was made to reflect the Trust's fiduciary responsibilities for these external pool amounts.

In addition, the Commonwealth maintains investments in the Pension Reserve Investment Trust (PRIT) on behalf of retirement systems of cities, towns and other political subdivisions of the Commonwealth. Investments of approximately $839,418,000 at June 30 1999 belonging to the retirements systems of these local governments and other political subdivisons is reported as part of the pension trust funds of the Commonwealth within the Fiduciary Fund Type and represent less than 3% of the total assets held by PRIT. Prior to June 30, 1999, such amounts were reported as an agency fund liability. Beginning fund balances of the Pension Trust Funds has been restated by $738,709,000 to reflect this change. The change in reporting was made to better the Commonwealth's fiduciary responsibilities for these pension funds

2. BUDGETARY CONTROL

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriation act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotment of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are noncontinuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior fiscal year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues

be retained and made available for spending within an appropriation account. The allocation of fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriations process or separately budgeted.

The original fiscal year 1999 appropriations act was Chapter 194, Acts of 1998. This appropriation act authorized $18,717,021,000 in direct appropriations. In addition, the act contained $810,540,000 in authorizations to retain and expend certain non-tax revenues of which $800,120,000 were estimated to be collected and expended, plus $106,849,000 of interagency chargebacks. Chapter 194 included estimates of $13,870,500,000 in tax revenues and approximately $5,644,200,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately $19,514,700,000 and with unreserved balances of approximately $378,527,000 carried forward from the fiscal year 1998, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1999, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 319, 386, 399, 481 and 482 of the Acts of 1998, and Chapters 10, 20, 22 and 26 of the Acts of 1999, which included numerous supplemental budgetary appropriations. These supplements added $954,000 in direct appropriations and $207,319,000 in additional retained revenue authorizations and $2,192,000 in additional interagency chargebacks.

Subsequent to June 30, 1999 the Legislature passed and the Governor signed Chapters 55 as amended and 68 of the Acts of 1999 which included $95,703,000 in additional supplemental appropriations, $605,720,000 in additional retained revenue authorizations. The cumulative fiscal year 1999 appropriations, retained revenues, and interagency chargebacks totaled approximately $20,546,299,000. Appropriations continued from fiscal year 1998 totaled approximately $260,289,000 and certain interfund transfers directed by statute totaled approximately $1,111,042,000.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a discrepancy to separately published budget documents. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Schedule of Revenues, Expenditures and Changes in Fund Balances – Statutory Basis – Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds include the Highway, Local Aid, Commonwealth Stablization Administrative Control, Environmental, and Other budgeted funds.

The Office of the Comptroller (Comptroller) has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the State accounting system, Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account total available spending authorization.

A MMARS report, internally identified as RPT226, is used by management and the Comptroller to monitor spending against budget. This report provides information at the individual line item appropriation account level, which is the legal level of budgetary control. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

A reconciliation of the statutory basis budgeted funds to the GAAP basis General and Special Revenue funds presented in the financial statements is as follows (amounts in thousands):

	General Fund	Special Revenue
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (Statutory basis)................	$ 1,044,531	$ (1,124,196)
Entity differences:		
Excess of revenues and other financing sources over expenditures and other financing uses for Non-budgeted Special Revenue Funds............	-	362,216
Perspective differences:		
Certain activities treated as Special Revenue Funds for statutory purposes are accounted for in the General Fund for GAAP.............................	(42,827)	42,827
Basis of accounting differences:		
Net change in taxes receivable.................................	17,515	22,194
Net change in due from federal government................................	(17,359)	228
Net change in other receivables and other assets..................................	290,451	2,419
Net change in tax refunds and abatements payable...	(9,974)	(8,244)
Net change in accounts payable and other liabilities..................................	(327,958)	(26,097)
Excess change of revenues and other financing sources over expenditures and other financing uses (GAAP basis)...................	$ 954,379	$ (728,653)

3. DEPOSITS AND INVESTMENTS

Cash and short-term Investments –The Commonwealth maintains a cash and short-term investment pool, which is utilized by the Governmental and Fiduciary Fund types.

Primary Government -

As of June 30, 1999, the carrying amount of the Primary Government's total cash and cash equivalents was $670,138,000 and the corresponding bank balance was $689,130,000. Bank deposits in the amount of $6,398,000 were insured by the Federal Deposit Insurance Corporation, $100,241,000 were collateralized in the name of the Commonwealth and $582,491,000 were uninsured and uncollateralized.

Component Units -

As of June 30, 1999, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was $791,937,000 and the corresponding bank balances were $793,903,000. Bank deposits of $145,882,000 were insured by the Federal Deposit Insurance Corporation, $11,562,000 were collateralized in the name of the respective component units, and $636,459,000 were uninsured and uncollateralized.

Investments – The investments are reported at fair value in the financial statements. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Primary Government – Investments of the Primary Government at June 30, 1999, are as follows (amounts in thousands):

Investment	Category 1	Category 2	Category 3	Total
Repurchase agreements	$ 1,288,522	$ 1,075	$ 907	$ 1,290,504
U.S. Treasury obligations	1,703,869	5,660	97,493	1,807,022
Commercial paper	3,332,551	-	359	3,332,910
Government obligations	2,090,111	22,171	10,988	2,123,270
Equity securities	18,238,459	478	28,341	18,267,278
Fixed income securities	3,643,587	-	204,824	3,848,411
Asset backed investments	8,308	-	500	8,808
Notes	207,156	-	-	207,156
Other	-	4,438	2,709	7,147
	$ 30,512,563	$ 33,822	$ 346,121	30,892,506
Money market investments				544,370
Mutual fund investments				39,139
Annuity contracts				1,415,716
Eurodollar contracts				5,556
Real estate				1,314,345
Assets held in trust				1,965,432
Deposits with U.S. Treasury				1,884,073
Certificates of Deposits				39,113
Other				1,174,034
Total				$ 39,274,284

Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above	$ 39,274,284
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments	6,351,043
Restricted investments reported separately in the combined balance sheet	282,287
Assets held in trust reported separately in the combined balance sheet	1,965,432
Annuity contracts reported separately in the combined balance sheet	1,415,716
Deposits reported separately in the combined balance sheet	1,929,634
Investments as reported on the combined balance sheet	$ 27,330,172

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1999 (amounts in thousands):

Carrying amount of cash and cash equivalents	$ 670,138
Cash with fiscal agent	(75,165)
Short-term investments	6,351,043
Cash and short-term investments as reported on the combined balance sheet	$ 6,946,016

Financial Investments with Off-Balance Sheet Risk – Certain investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. A description of such "off-balance sheet risks" is as follows.

i) Forward Currency Contracts – The Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates.

The contract is marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss by the Pension Trust Fund.

When the contract is closed, the Pension Trust Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The maximum potential loss from such contract is the aggregate face value in U.S. dollars at the time the contract was opened.

ii) Futures Contracts – The Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to the minimum "initial margin" requirements of the futures.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its futures positions due to a nonliquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Pension Trust Funds may also invest in financial futures contracts for nonhedging purposes.

Payments are made or received by the Pension Trust Funds each day, depending on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. When the contracts are closed, the Pension Trust Funds recognize a realized gain or loss. The notional value of the futures contracts at June 30, 1999 for the Pension Trust Funds amount to approximately $159,322,000 with unrealized gain of approximately $587,000.

iii) Options – PRIT is also engaged in selling or "writing" options. The Pension Trust Funds, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 1999, there were no material options outstanding.

Component Units – Investments of the discretely presented Component Units at June 30, 1999 are as follows (amounts in thousands):

Investment	Category 1	Category 2	Category 3	Total
Repurchase agreements	$ 20,656	$ 15,000	$ 3,883	$ 39,539
U.S. Treasury obligations	2,393	-	514	2,907
Commercial paper	238,580	39,929	-	278,509
Government obligations	122,786	413,504	22,614	558,904
Equity securities	-	-	1,654	1,654
Notes	14,830	-	4,891	19,721
Other	-	161,333	13,885	175,218
	$ 399,245	$ 629,766	$ 47,441	1,076,452
Mutual fund investments				380
Assets held in trust				4,932
Guaranteed investment contracts				583,300
Certificate of deposits				8,435
Total				$ 1,673,499

Following is a reconciliation of investments summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above	$ 1,673,499
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments	294,560
Restricted investments reported separately in the combined balance sheet	827,500
Deferred compensation plan mutual funds reported separately in the combined balance sheet	-
Assets held in trust reported separately in the combined balance sheet	4,932
Investments as reported in the combined balance sheet	$ 546,507

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1999 (amounts in thousands):

Carrying amount of cash and cash equivalents	$ 791,937
Short-term investments reported as investments for GASB 3 disclosure purposes but reported in the combined balance sheet as cash and short-term investments	294,560
Cash and short-term investments as reported in the combined balance sheet	$ 1,086,497

4. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

Primary Government –

	Taxes	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
General Fund	$ 1,207,454	$ 451,535	$ -	$ 679,485	$ (786,358)	$ 1,552,116
Special Revenue Funds	853,507	451,477	-	157,410	(170,562)	1,291,832
Capital Projects Funds	-	575	-	126	(39)	662
Trust and Agency Funds	298,025	3,284	5,005	990,206	(630,340)	666,180
University and College Fund	-	19,112	57,640	249,980	(39,155)	287,577
Subtotal	2,358,986	925,983	62,645	2,077,207	$ (1,626,454)	3,798,367
Less allowance for uncollectibles	(444,254)	(5,611)	(7,376)	(1,169,213)		
Net receivable	$ 1,914,732	$ 920,372	$ 55,269	$ 907,994		$ 3,798,367

Component Units –

	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
MBTA	$ -	$ -	$ 20,112	$ -	$ 20,112
MTA	-	-	9,065	-	9,065
Regional Transit Authorities	6,399	-	8,520	(36)	14,883
MWPAT	40,418	1,144,253	30,239	-	1,214,910
MDFA	-	80,656	6,240	(11,870)	75,026
MCCA	-	-	563	(51)	512
MTPC	-	-	3,576	-	3,576
Economic Development	12,622	166,865	2,902	(3,458)	178,931
Subtotal	59,439	1,391,774	81,217	$ (15,415)	1,517,015
Less allowance for uncollectibles	-	(15,328)	(87)		
Net receivable	$ 59,439	$ 1,376,446	$ 81,130		$ 1,517,015

5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Receivables and payables between funds and component units reflected as due to/from primary government/component units in the combined balance sheet at June 30, 1999 are summarized as follows (amounts in thousands):

Primary Government:

	Due from	Due to
General Fund:		
Special Revenue Funds:		
Federal Grants	$ 42,414	$ -
Highway	188,880	
Local Aid	2,375,075	-
Environmental	28,157	-
Capital Projects Funds:		
General	-	107,816
Capital Investment Trust	-	59,215
Boston Convention and Exhibition	19,000	-
Capital Improvement & Investment Trust	-	168,926
Capital Expenditure Reserve	-	315,135
Highway	201,924	-
Federal Highway	-	92,830
Local Aid	11,436	-
Other	14,010	-
Trust and Agency Funds:		
Pension Trust	1,672	-
University and College Fund:		
Current - Unrestricted	4,803	-
Subtotal	2,887,371	743,922
Special Revenue Funds:		
General Fund	-	2,634,526
Special Revenue Funds:		
Highway	-	140
Capital Projects Funds:		
Federal Highway Construction	-	78,425
Other	140	-
Subtotal	140	2,713,091
Capital Projects Funds:		
General Fund	743,922	246,370
Special Revenue Funds:		
Other	78,425	-
Subtotal	822,347	246,370
Internal Service Funds:		
University and College Funds:		
Current - unrestricted	24,186	-
Subtotal	24,186	-
Fiduciary Funds:		
General Fund	-	1,672
Subtotal	-	1,672
University and College Fund:		
General Fund	-	4,803
Internal Services Funds:		
Employees Workers' Compensation	-	24,186
University and College Fund:		
Current - unrestricted	64,871	36,085
Current - restricted	119	38,554
Loan	161	-
Endowment	15,637	7,168
Plant	1,019	-
Subtotal	81,807	110,796
Total Primary Government	$ 3,815,851	$ 3,815,851

Component Units:

	Due from	Due to
General Fund:		
MBTA	$ -	$ 9,774
RTAs	-	35,536
MCCA	-	24,371
MDFA	14,750	-
Economic Development Authorities	884	1,280
Subtotal	15,634	70,961
Special Revenue Funds:		
MBTA	-	286,349
RTAs	-	25,511
Subtotal	-	311,860
Capital Projects Funds:		
Economic Development Authorities	-	500
Subtotal	-	500
Agency Funds:		
MWPAT	-	32,430
Subtotal	-	32,430
Subtotal - Primary Government	15,634	415,751
MBTA:		
General Fund	9,774	-
Special Revenue Funds:		
Highway	95,450	-
Local Aid	190,899	-
Subtotal	296,123	-
RTAs:		
General Fund	35,536	-
Special Revenue Funds:		
Highway	8,504	-
Local Aid	17,007	-
Subtotal	61,047	-
MWPAT:		
Agency Fund	32,430	-
Subtotal	32,430	-
MDFA:		
General Fund	-	14,750
Subtotal	-	14,750
MCCA:		
General Fund	24,371	-
Subtotal	24,371	-
MTPC:		
General Fund	60	-
Subtotal	60	-
Economic Development Authorities:		
General Fund	1,220	884
Capital Projects Funds:		
General	500	-
Subtotal	1,720	884
Subtotal Component Units	415,751	15,634
Total Component Units	$ 431,385	$ 431,385

6. FIXED ASSETS

Primary Government-

General Fixed Asset Account Group – Changes in general fixed assets by category at June 30, 1999 are as follows (amounts in thousands):

	Balance at July 1, 1998	Additions	Retirements	Balance at June 30, 1999
Land	$ 542,611	$ 16,512	$ 1	$ 559,122
Buildings	2,402,156	152,902	11	2,555,047
Machinery and equipment	578,898	61,334	10,581	629,651
Construction in progress	150,062	38,000	108,204	79,858
Total	$3,673,727	$ 268,748	$ 118,797	$ 3,823,678

University and College Fund Type – Fixed assets consist of the following at June 30, 1999 (amounts in thousands):

	Amount
Land	$ 47,511
Buildings	1,849,978
Machinery and equipment	618,070
Construction in progress	19,293
	2,534,852
Less accumulated depreciation	(3,215)
Total	$ 2,531,637

Component Units – Fixed assets consist of the following at June 30, 1999 (amounts in thousands):

	Amount
Land and improvements	$ 356,181
Infrastructure	1,355,357
Structures and improvements	6,482,071
Equipment, furniture, fixtures and vehicles	1,976,485
Total	10,170,094
Less accumulated depreciation	(2,708,900)
Net fixed assets	7,461,194
Construction in progress	521,577
Total	$ 7,982,771

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Primary Government -

The Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

General Fund – The Commonwealth is authorized by General Laws to issue short-term notes to finance working capital advances to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. There were no such notes outstanding at June 30, 1999.

The balance of revenue anticipation notes (RANs) fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1999, there were no RANs issued or outstanding.

Capital Projects Funds – The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects, but it must reduce the balance to $200,000,000 at June 30. During fiscal year 1999, there were no BANs issued or outstanding.

Letter-of-Credit Agreements – During fiscal year 1999, the Commonwealth maintained letter-of-credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to $400,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during fiscal year ended 1999, or subsequent thereto. One $200,000,000 letter of credit expired on September 1, 1998. The remaining agreements expire on October 31, 2000. The average costs are approximately .09 % on both unutilized and utilized amounts.

Line-of-Credit Agreement – During fiscal year 1999, the Commonwealth did not maintain any line-of-credit agreements to provide liquidity support for commercial paper notes. On September 28, 1999, the Commonwealth entered into line-of-credit agreements with two banks to provide a total of $400,000,000 in liquidity support for the state's commercial paper program. These agreements expire in September of 2001 and 2002, respectively. The costs of these facilities average approximately .08% on unutilized amounts and .095 % on utilized amounts.

Component Units -

MBTA short-term notes payable outstanding at June 30, 1999 totaled $325,000,000. Of this amount, $160,000,000 is due September 3, 1999 with an interest rate of 4.25% and $165,000,000 will mature on February 25, 2000 with an interest rate of 3.50%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1999, $86,100,000 of this commercial paper was outstanding.

Subsequent to June 30, 1999, the MBTA issued $160,000,000 of notes carrying an interest rate of 4.25%. The notes mature on September 1, 2000.

The RTAs had $70,995,000 short-term notes payable outstanding at June 30, 1999. All notes mature during fiscal year 1999 and have interest rates ranging from 3.42% to 4.95%.

Subsequent to June 30, 1999, the RTAs rolled over $41,023,000 of revenue anticipation notes with interest rates ranging from 3.63% to 4.00% due in fiscal year 2000.

8. LONG-TERM DEBT

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other financing sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned in aid of any individual, private association, or corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 1999, the Commonwealth had three types of long-term debt outstanding: general obligation bonds, special obligation bonds and grant anticipation notes.

The general obligation bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears as expenditures are made, unless the proceeds are allocated at the time of issuance.

Some Commonwealth general obligation debt is issued as college opportunity bonds (COBs) as authorized by the Massachusetts General Laws. Such bonds were issued in fiscal year 1996, 1997, 1998 and 1999 in initial amounts totaling approximately $82,578,000, with maturities ranging from 2000 through 2018. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COB's maturity is a variable rate equal to the change in annual Consumer Price Index (CPI) plus 2.0%. Assuming the CPI averages 3.5% during the life of the outstanding COBs the payments due at maturities of the COBs will total approximately $144,344,000. In addition, COBs pay current interest in the amount of 0.5% per year of the initial amount still outstanding. These bonds are backed by the full faith and credit of the Commonwealth.

On August 1, 1999 the Commonwealth issued approximately $12,900,000 in additional College Opportunity Bonds, with maturities of 2004 to 2019. The terms and conditions of these bonds are the same of those issued in fiscal years 1996, 1997, 1998 and 1999.

Chapter 48 of the Acts of 1997 and Chapter 300 of the Acts of 1998 abolished several Massachusetts counties on various effective dates. As part of these provisions, the Commonwealth assumed the outstanding debt of

Middlesex County on July 1, 1997, and that of Hampden and Worcester Counties on July 1, 1998. As of June 30, 1999, approximately $2,345,000 of these obligations remains outstanding. On July 1, 1999 the Commonwealth assumed the debt of Essex County in the amount of $2,100,000.

The Commonwealth also issues special obligation revenue bonds as authorized by the General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 1999, the Commonwealth had outstanding approximately $585,730,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21 cents per gallon motor fuel excise tax imposed on gasoline. No new special obligation bonds were issued during the year.

The Commonwealth also issues Federal Highway Grant Anticipation Notes (GANS) to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Sections 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorize the Commonwealth to sell up to $1,500,000,000 in GANS. All Federal Highway Construction reimbursements and reimbursements from the Federal Highway Construction Trust Funds are pledged to the repayment of the GANS. Up to $900,000,000 of said notes may be paid off through the issuance of authorized general obligation bonds of the Commonwealth in the event federal financial assistance is not available. At June 30, 1999, the Commonwealth has approximately $921,720,000 of GANS outstanding with maturity dates ranging from 2005 to 2015. These notes are secured by the pledge of Federal Highway Construction reimbursements without a general obligation pledge.

For financial reporting purposes, long-term debt is carried at its face value, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding at its face amount.

The amount of long-term debt authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

General obligation and special obligation long-term bonds outstanding, grant anticipation notes (including discount and issuance costs), and debt authorized-unissued at June 30, 1999 are as follows (amounts in thousands):

Purpose	Outstanding Amounts	Maturities	Authorized - Unissued
GANS	$ 921,720	2005-2015	$ 600,009
Capital Projects:			
General	5,060,692	1999-2025	5,154,056
Highway	4,218,274	1999-2018	5,016,975
Local Aid	1,549,075	1999-2017	425,671
Other	58,700	1999-2025	807,306
	10,886,741		11,404,008
Total	$ 11,808,461		$ 12,004,017

Interest rates on the Commonwealth's debt outstanding at June 30, 1999 ranging from 0.10% to 14.125%.

Changes in long-term debt outstanding (including discount and issuance costs) and bonds authorized - unissued for the year ended June 30, 1999, are as follows (amounts in thousands):

	Bonds Outstanding	Authorized - Unissued
Balance, July 1, 1998	$ 11,078,603	$ 12,316,738
General and special obligation bonds:		
Principal, less discount and issuance costs	1,014,803	(1,014,803)
Discount and issuance costs	15,687	-
County debt:		
Principal of bonds assumed	1,505	-
Grant Anticipation Notes:		
Principal, less discount and issuance costs	319,434	(319,434)
Discount and issuance costs	2,286	-
General obligation refunding bonds:		
Principal of bonds issued	499,520	-
Refunded bonds	(464,820)	-
Increase in bonds authorized	-	1,513,829
Contributions in lieu of bonds	-	(492,313)
Bonds retired	(658,557)	-
Balance, June 30, 1999	$ 11,808,461	$ 12,004,017

On December 1, 1999 the Governor signed into law Chapter 150 of the Acts of 1999 which extended certain capital spending accounts to June 30, 2000 and deauthorized approximately $1,900,000,000 in capital spending effective December 2, 1999. The bill also amended certain terms legislation as well as language changes to other capital legislation.

At June 30, 1999, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

Fiscal year ending June 30,	Principal	Interest	Total
2000	$ 675,564	$ 552,554	$ 1,228,118
2001	720,675	517,954	1,238,629
2002	686,631	482,383	1,169,014
2003	701,641	451,722	1,153,363
2004	695,994	421,980	1,117,974
2005 and thereafter	8,327,956	2,387,669	10,715,625
Total	$ 11,808,461	$ 4,814,262	$ 16,622,723

The Commonwealth issued bonds and notes under negotiated contracts and under competitive bidding contracts during fiscal year 1999. The costs for legal counsel and underwriting fees under competitive bond sale costs were estimated at $102,000 and $1,666,000, respectively. Negotiated legal fees and underwriter fees were estimated at $182,000 and $5,000,000, respectively. In addition, the Commonwealth paid $80,000 for disclosure counsel services.

Advance Refunding and Defeased Bonds - As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds through the issuance of approximately $499,520,000 of general obligation refunding bonds during fiscal year 1999. Proceeds totaling approximately $498,793,000 were used to purchase U. S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately $32,530,000 over the next 20 years and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately $24,930,000. At June 30, 1999, approximately $464,820,000 of the bonds refunded remain outstanding and are defeased.

The refunding bonds issued in fiscal year 1999 constituted variable rate demand bonds. The variable rate for those bonds are determined weekly based on the activity of a remarketing agent, and interest is paid monthly. In connection with issuance of the variable rate demand bonds, the Commonwealth has entered into interest rate exchange (“swap”) agreements with certain counterparties. These agreements require the counterparties to pay the Commonwealth an amount equal to the variable rate payable on the bonds and in return the Commonwealth pays a fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty. The bond principal is not exchanged. The Commonwealth continues to pay interest to the bondholders at the variable rate provided by the bonds.

Through these agreements the Commonwealth has effectively fixed its interest payment obligations relative to the variable rate bonds at a rate equal to 4.32%, including the costs of the liquidity facility and remarketing. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap is terminated. A termination of the swap agreement may also result in the Commonwealth’s making or receiving a termination payment.

The variable rate bonds are supported by a stand-by bond purchase liquidity facility with a commercial bank, which requires that the bank purchase any bonds that are not successfully remarketed and tendered. Until and unless remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank’s prime interest rate. In addition, the Commonwealth would be required to repay the principal amount of any such bonds in equal quarterly installments over the remainder of the term of the stand-by bond purchase agreement. As of June 30, 1999 the stand-by bond purchase facility has not been used. The stand-by bond purchase agreement has a stated expiration date of September 2003, but may be renewed or extended by mutual consent of the Commonwealth and the bank. In connection with the agreement the Commonwealth pays a fee equal to .10% per year of the principal amount of variable rate bonds outstanding.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1999, approximately $2,330,546,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

On October 13, 1999 the Commonwealth defeased $512,565,000 of outstanding debt at maturity issued prior to June 30, 1999. The Commonwealth deposited $400,001,000 of available funds from fiscal year 1999, pursuant to Chapter 55, Section 7 of the Acts of 1999, into an irrevocable trust to provide for all future debt service payments on bonds. The defeasance resulted in no economic gain or loss.

Statutory Debt Limit –The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for fiscal year 1999 was approximately $10,046,697,000. Outstanding debt subject to the limit at June 30, 1999 was approximately $9,516,320,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes bond anticipation notes and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, grant anticipation notes, refunded bonds, and certain refunding bonds and debt issued by counties.

The amounts excluded from the debt limit are as follows (amounts in thousands):

	Debt Outstanding
Balance, June 30, 1999……………………	$ 11,808,461
Less amounts excluded:	
Discount and issuance cost………………	(677,326)
Chapter 5 of Acts of 1992 refunding……	(130,069)
Special obligation principal……………	(582,410)
GANS principal…………………………	(899,991)
County debt assumed……………………	(2,345)
Outstanding direct debt…………………	$ 9,516,320

General Long-Term Obligations Account Group – The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 12), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools, compensated absences, claims judgments, and lottery prizes payable (Note 1).

These liabilities will be liquidated in the future from governmental funds. During the year ended June 30, 1999, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Balance July 1, 1998	Bond Issuances	Bond Discount	Bond Principal Retirement	Increase	(Decrease)	Balance June 30, 1999
Long-term bonds……	$ 11,078,603	$ 1,835,265	$ 17,970	$ (1,123,377)	$ -	$ -	$ 11,808,461
Capital leases obligations……	91,639	-	-	-	9,392	(23,048)	77,983
School construction grants……	4,196,637	-	-	-	-	(233,734)	3,962,903
Compensated absences……	115,866	-	-	-	13,348	-	129,214
Claims, judgements, and other……	76,053	-	-	-	230	-	76,283
Lottery prizes payable……	10,624	-	-	-	-	(7,408)	3,216
Total……	$ 15,569,422	$ 1,835,265	$ 17,970	$ (1,123,377)	$ 22,970	$ (264,190)	$ 16,058,060

University and College Fund – Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed $182,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

University and College Fund long-term debt outstanding at June 30, 1999 was as follows (amounts in thousands):

Purpose	Interest Rates	Amount	Maturity Dates
MHEFA capital asset program...	Variable	$ 41,025	2000-2033
Building authorities and state colleges........................	3.0%-12.0%	234,258	2000-2024
		$ 275,283	

Maturities of principal are as follows (amounts in thousands):

Fiscal Years Ending June 30,	Amount
2000..	$ 33,058
2001..	13,828
2002..	14,741
2003..	15,280
2004	16,853
2005 and thereafter.........................	181,523
Total..	$ 275,283

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

	Amount
Balance, July 1, 1998	$ 262,648
Principal, less issuance and discount cost....................	24,559
Bonds retired, net of amortization of discount............	(11,924)
Balance, June 30, 1999..	$ 275,283

In August 1999, the Massachusetts State College Building Authority issued approximately $83,732,000 in Project Revenue Bonds. The proceeds will be used to finance construction, repair and renovations of capital facilities at several state colleges.

Component Units – Bonds and notes outstanding at June 30, 1999 (December 31, 1998 for Massachusetts Turnpike Authority), net of unamortized discount of approximately $140,941,000 and unamortized deferred loss on refunding of approximately $169,539,000, are as follows (amounts in thousands):

Purpose	Interest Rate %	Amount	Maturity Dates
MBTA:			
General transportation system...........	3.11% -7.60%	$ 3,097,616	2006 - 2028
Boston Metropolitan District.............	3.96 - 5.80	36,203	2002 -2025
MTA:			
Revenue serial bonds.........................	5.00 - 5.65	1,667,668	2010 - 2037
Guaranteed bond................................	5.00	55,905	1999
RTAs:			
Notes payable....................................	3.75	950	2000
MWPAT:			
Serial bonds.......................................	2.00 - 6.25	900,772	1999 - 2017
Term bonds..	5.25 - 6.375	182,115	2013 - 2015
MDFA:			
Notes payable....................................	6.11	12,972	2002
MCCA:			
Current interest serial bonds..............	4.00 - 6.00	36,216	1999 -2008
Compound interest serial bonds.........	5.375 - 6.80	58,202	2000 - 2013
Economic Development:			
Notes payable....................................	1.00 - 11.00	104,215	1999 - 2009
Total..		$ 6,152,834	

The amounts below represent the face amounts of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements. Maturities of principal are as follows (amounts in thousands):

Years Ending	MBTA	MTA	RTAs	MWPAT	MDFA	MCCA	Economic Development	Total
2000................................	$ 99,287	$ 80,235	$ 950	$ 46,275	$ 5,700	$ 22,670	$ 11,714	$ 266,831
2001................................	109,556	-	-	47,785	2,555	14,234	10,010	184,140
2002................................	112,699	7,945	-	49,690	4,717	11,054	8,015	194,120
2003................................	120,821	12,295	-	51,190	-	8,399	6,012	198,717
2004 …………………..	124,495	13,050	-	52,260	-	7,936	2,609	200,350
2005 and thereafter....….	2,780,260	1,706,763	-	835,687	-	30,591	65,729	5,419,030
Total...............................	$3,347,118	$ 1,820,288	$ 950	$ 1,082,887	$ 12,972	$ 94,884	$ 104,089	$ 6,463,188

During the fiscal year ended June 30, 1999 (December 31, 1998 for Massachusetts Turnpike Authority) the following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

	MBTA	MTA	RTAs	MWPAT	MDFA	MCCA	Economic Development	Total
Balance, July 1, 1998..................	$ 3,044,940	$ 1,713,686	$ -	$ 825,375	$ 13,821	$ 115,754	$ 95,243	$ 5,808,819
Principal, less discount issuance costs...........................	480,613	-	950	410,747	977	-	18,900	912,187
Debt retired, net of amortization of discount...........	(380,607)	9,887	-	(153,235)	(1,826)	(21,336)	(9,928)	(557,045)
Deferred loss on refunding.........	(11,127)	-	-	-	-	-	-	(11,127)
Balance, June 30, 1999................	$ 3,133,819	$ 1,723,573	$ 950	$ 1,082,887	$ 12,972	$ 94,418	$ 104,215	$ 6,152,834

The MBTA issued certificates of participation in the amounts of approximately $28,565,000 on December 15, 1988 and approximately $85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreements, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 7.30% to 7.80% and mature as follows (amounts in thousands):

Year Ending June 30	Amount
2000...	$ 1,150
2001...	1,150
2002...	1,140
2003...	1,140
2004...	1,140
2005 and thereafter......................	2,270
Total..	$ 7,990

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. These payments began in 1995. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1999, approximately $2,041,720,000 of these bonds outstanding are considered defeased.

Subsequent to June 30, 1999, the MBTA issued $232,121,000 in general obligation bonds with interest rates ranging from 5.00% to 8.00%. The bonds will mature on periods ranging from year 2000 to year 2030.

On September 9, 1999, the MWPAT raised $271,700,000 through the issuance of tax-exempt Water Pollution Abatement Revenue Bonds. The bonds were used to finance Clean Water Program loans, forward funding for Title 5 projects, Federally Capitalized Safe Drinking Water Program, the Trust's Leveraged Bonds Purchase Program and to refinance $75,300,000 of interim financing outstanding to borrowers. The bonds carry interest rates ranging from 4.25% to 5.73% and mature at varying interest rates between fiscal 2001 and 2020.

On October 19, 1999, the MWPAT sold $406,600,000 in subordinated revenue bonds for the purpose of refunding and extending the majority of the Massachusetts Water Resources Authority's debt to the Trust. Interest rates on $262,500,000 of the new subordinated serial bonds issued, maturing from fiscal 2001 through 2020, had coupons ranging from 4.20% to 6%, with yeilds from 3.72% to 5.98%. Also $81,100,000 of term bonds that mature in fiscal 2024 and $63,000,000 that mature in fiscal 2030 carry yields of 6.04% and 6.06%, respectively. The bonds and financing for the Authority closed on November 3, 1999.

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

In October 1997, approximately $555,909,000 of the net proceeds from the issuance of the 1997 Series Revenue Bonds were used to purchase U. S. Government securities which were then deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the 1993 Series A Revenue Bonds and approximately $203,410,000 of the Guaranteed Bond Anticipation Notes. As a result, the 1993 Revenue Bonds and that portion of the Guaranteed Bond Anticipation Notes are considered to be defeased and the liability for these bonds has been removed from the balance sheet. At December 31, 1998, approximately $358,155,000 of the refunded bonds remains outstanding.

In January 1996, approximately $56,573,000 of the net proceeds from the issuance of Guaranteed Bond Anticipation Notes was used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on refunded bonds. As a result, the refunded bonds were considered to be defeased and the liability has been removed from the balance sheet. At December 31, 1998, approximately $43,200,000 of the refunded bonds remains outstanding.

On February 22, 1995, Pioneer Valley Transit Authority (PVTA) issued certificates of participation of approximately $9,930,000 to finance the purchase of buses. Under the terms of the agreement, PVTA is obligated to make annual payments on the certificates subject to the Commonwealth appropriating the necessary funds in the Authority's annual budget.

The certificates bear interest rates ranging from 5.0% to 5.7% and mature as follows (amounts in thousands):

Year Ending June 30,	Amount
2000	$ 1,240
2001	1,240
2002	1,240
2003	1,240
2004	-
Total	$ 4,960

The amount in the table above differs from the amounts included in the balance sheet due to treatment of unamortized discounts of $23,000.

9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 1999 as follows (amounts in thousands):

Fund	Amount
Special Revenue:	
Highway	$ 261,848
Local Aid	2,684,134
Environmental	20,169
Lotteries	2,649
Capital Projects:	
Boston Convention and Exhibition Center	19,000
Highway	261,703
Federal Highway Construction	14
Local Aid	26,232
Other	15,202
Internal Service Funds:	
Employees Workers' Compensation	233,700
Employees Group Health Insurance	14,476

The Local Aid Fund has incurred a deficit primarily due to increased state funding for support of local communities for education and transportation. The revenues allocated to this fund have not been sufficient to support the increased spending. The Commonwealth will budget in future years the allocation of revenue to support the increased spending authority.

The special revenue fund deficits will be funded through future revenues and/or transferred from other funds.

In the Capital Projects Funds, deficits reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequent to June 30, 1999, the Commonwealth $500,000,000 in general obligation bonds part of which was used to finance the deficits.

The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance claims of $248,176,000. Funding of these deficits is dependent upon legislative actions to develop an actuarial funding plan.

10. RETIREMENT SYSTEMS

Primary Government –

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth).

The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, in fiscal year 1997 and prior fiscal years. The Commonwealth is statutorily required to have an actuarial valuation once every three years and every two years on a GAAP basis.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

Plan Descriptions –

State Employees' Retirement System (SERS) is a single-employer defined benefit public employee retirement system (PERS) covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

Teachers' Retirement System (TRS) is an agent multiple-employer defined benefit PERS with a special funding situation. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

State – Boston Retirement System (SBRS) is a multiple-employer cost sharing defined benefit PERS with a special funding situation. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth and is not part of the reporting entity and a stand-alone financial report is not available.

The policy for postretirement benefit increases for all retirees of the SERS, TRS, SBRS and COLA are subject to legislative approval.

Membership – Membership in SERS, TRS and SBRS as of January 1, 1998 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits	43,144	30,499	2,742
Terminated employees entitled to benefits but not yet receiving them	2,073	1,850	96
Subtotal	45,217	32,349	2,838
Current employees:			
Vested	48,035	50,477	4,181
Non-vested	34,596	24,422	1,269
Subtotal	82,631	74,899	5,450
Total	127,848	107,248	8,288

During fiscal year 1998, the Commonwealth abolished Franklin and Middlesex Counties and in fiscal year 1999 the Commonwealth abolished Worcester, Hampden and Hampshire Counties, transferring their functions, assets, debts and obligations to the Commonwealth. The SERS actuarial accrued liability includes former county employees who were transferred to the Commonwealth.

Benefit Provisions – Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of

80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification. The authority for amending these provisions is with the legislature.

Retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuating retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Funding Progress **-** The SERS, TRS and SBRS actuarial determined contributions were computed as part of the actuarial valuation as of January 1, 1998. The Commonwealth had revised three actuarial assumptions used in the calculation of contribution requirements and Unfunded Actuarial Liability (UAL). First, the assumed rate of return on investments of present and future assets was changed from 8.5% to 8.25% per year, resulting in a $641,000,000 increase in the UAL. Second, the use of an updated mortality table resulted in a $1,100,000,000 increase in the UAL. Third, a change from using the market value of assets to an actuarial value of assets had the effect in this valuation of reporting assets at 97% of the market value. This third change results in a $643,000,000 increase in UAL. Other significant assumptions used are (a) projected salary increases of 6% per year, (b) cost of living (inflation rate) increases of 3% per year on the first $12,000 of the retiree's total allowance, and (c) interest rate credited to the annuity savings fund of 5.5% per year. These calculations use a level dollar amortization method over 20 years closed period.

The following table presents the schedule of funding progress as presented in the five most recent actuarial valuations at the date indicated (amounts in thousands):

Actuarial Valuation as of January 1,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio %	Annual Covered Payroll *	UAL as a % of Covered Payroll
State Employers Retirement System						
1998**	$ 9,914,000	$ 11,361,000	$ 1,447,000	87.3 %	$ 3,111,000	46.5 %
1996	7,366,000	9,441,000	2,075,000	78.0	2,989,000	69.4
1995	5,879,000	8,602,000	2,723,000	68.3	2,992,000	91.0
1993	5,071,000	8,738,000	3,667,000	58.0	2,919,000	125.6
1992	4,699,000	7,303,000	2,604,000	64.3	2,638,000	98.7
Teachers Retirement System						
1998**	10,170,000	13,095,000	2,925,000	77.7	3,175,000	92.1
1996	7,553,000	10,252,000	2,699,000	73.7	2,810,000	96.0
1995	6,014,000	9,712,000	3,698,000	61.9	2,667,000	138.7
1993	5,142,000	8,921,000	3,779,000	57.6	2,428,000	155.6
1992	4,784,000	8,706,000	3,922,000	55.0	2,032,000	193.0
State - Boston Retirement System						
1998**	699,000	1,219,000	520,000	57.3	285,000	182.5
1996	549,000	1,025,000	476,000	53.6	274,000	173.7
1995	438,000	833,000	395,000	52.6	232,000	170.3
1993	370,000	743,000	373,000	49.8	206,000	181.1
1992	342,000	759,000	417,000	45.1	184,000	226.6

* - The covered payroll amounts approximate the employer payroll.

** - Revised actuarial assumptions

In addition to these system liabilities, the Commonwealth had assumed financial responsibility for the COLA granted to participants in the 104 retirement systems of cities, towns and counties in fiscal year 1997 and prior fiscal years. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to the respective system. Any future COLA granted to employees of these plans will be the responsibility of the individual system. The individual employer governments are also responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity. The actuarial liability for COLA as of January 1, 1998 was approximately $912,029,000.

Contributions Required and Contributions Made **–** The retirement systems' funding policies have been +established by Chapter 32 of the General Laws. The legislature has the authority to amend these policies. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation – 5% for those hired before January 1, 1975 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above $30,000 per year for those hired on or after January 1, 1979. Regular employees and state police hired after June 30, 1996 are required to contribute 9% and 12%, respectively, of their compensation plus an additional 2% of compensation above $30,000 per year. Costs of administering the plan are funded out of plan assets.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. Chapter 32, Section 22C of General Laws enacted in 1998 calls for the payment of normal cost plus an amortization payment of UAL such that the UAL is reduced to zero by June 30, 2018.

This legislation also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule.

The current legislatively approved funding schedule, based on the October 26, 1998 valuation, was adopted by the Legislature as part of the fiscal year 1999 budget process. Under the current schedule the amortization payments are designed to eliminate the unfunded liability by fiscal year 2018. Based on the previous funding schedule required contribution by the Commonwealth was approximately $945,340,000 during the fiscal year ended June 30, 1999. Of this amount, approximately $124,494,000 was payments for COLA granted to participants in 104 retirement systems of cities, towns, and counties.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they be not less than:

- Normal cost and amortization cost
- Interest and amortization on any unfunded prior service costs

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

The following table presents the schedule of employer contributions (amounts in thousands):

	Actuarial Valuation as of January 1,	Annual Required Contribution (ARC)	Interest on NPO	Amortization of NPO	Pension Cost	Actual Contribution Made	Net Pension (Obligation) Asset (NPO)	% of ARC Contributed	% of Pension Cost Contributed
	State Employers Retirement System								
*	1998	$ 261,255	$ (83,446)	$ 77,180	$ 254,989	$ 494,289	$ 1,250,766	189 %	194 %
	1997	246,037	(65,478)	41,889	222,448	463,590	1,011,466	188	208
	1996	232,158	(46,918)	29,523	214,763	433,114	770,324	187	202
	1995	249,640	(31,639)	19,614	237,615	417,361	551,973	167	176
	1994	266,564	(18,448)	9,152	257,268	398,900	372,227	150	155
	1993	243,587	(5,539)	2,694	240,742	402,100	230,595	165	167
	1992	252,687	136	(65)	252,758	323,700	69,237	128	128
	1991	282,682	2,335	(1,094)	283,923	311,400	(1,705)	110	110
	1990	259,102	4,569	(2,103)	261,568	289,500	(29,182)	112	111
	1989	298,800	2,160	(977)	299,983	269,866	(57,114)	90	90
	1988	279,582	-	-	279,582	252,585	(26,997)	90	90
	Teachers Retirement System								
*	1998	315,474	(59,126)	54,686	311,034	446,619	852,267	142	144
	1997	245,426	(44,832)	28,681	229,275	418,519	716,682	171	183
	1996	232,403	(30,311)	19,073	221,165	392,003	527,439	169	177
	1995	277,343	(24,002)	14,880	268,221	342,441	356,601	123	128
	1994	247,460	(15,975)	7,925	239,410	322,100	282,381	130	135
	1993	225,838	(9,946)	4,837	220,729	296,100	199,691	131	134
	1992	223,041	(4,996)	2,384	220,429	282,300	124,320	127	128
	1991	249,436	(3,452)	1,617	247,601	266,900	62,449	107	108
	1990	227,270	(1,459)	671	226,482	251,400	43,150	111	111
	1989	249,108	(1,595)	722	248,235	246,531	18,232	99	99
	1988	232,661	-	-	232,661	252,597	19,936	109	109
	State-Boston Retirement System								
*	1998	48,795	(2,114)	1,995	48,636	35,000	11,983	72	72
	1997	34,621	(2,082)	1,332	33,871	35,000	25,619	101	103
	1996	32,908	(1,860)	1,171	32,219	34,822	24,490	106	108
	1995	28,168	(1,816)	1,126	27,478	28,000	21,887	99	102
	1994	22,448	(1,216)	603	21,835	28,000	21,365	125	128
	1993	20,463	(650)	316	20,129	27,200	15,200	133	135
	1992	26,530	(634)	303	26,199	26,400	8,129	100	101
	1991	23,149	(413)	193	22,929	25,700	7,928	111	112
	1990	21,118	(251)	116	20,983	23,000	5,157	109	110
	1989	21,744	(127)	58	21,675	23,225	3,140	107	107
	1988	20,315	-	-	20,315	21,905	1,590	108	108

*Last year for which an actuarial valuation has been completed.

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation. During the year ended June 30, 1998, the Commonwealth's pension expenditure included payments totaling $19,310,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

Post-retirement Health Care and Life Insurance Benefits – In addition to providing pension benefits, under Chapter 32A of the General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, and redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its percentage share of the costs of providing these benefits when paid. These payments totaled approximately $182,541,000 for the fiscal year ended June 30, 1999. There are approximately 45,100 participants eligible to receive benefits at June 30, 1999.

Pension Actuarial Valuation – On April 28, 1999 a pension valuation report prepared by independent actuarial consultants to the Pension Reserves Investment Management (PRIM) Board was released. Using the same data and assumptions employed by PERAC in its October, 1998 valuation report, the independent report found the unfunded actuarial liability to be $6,346,000,000 (rather than $4,371,000,000) for state employees and state teachers and $583,300,000 million (rather than $519,900,000 million) for Boston teachers. The total unfunded liability, which includes cost of living adjustments, totaled $7,841,000,000 billion rather than $5,803,000,000. Neither PERAC nor the independent consultants to the PRIM Board have yet determined the source of the differences.

11. DEFERRED COMPENSATION PLAN

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employee. Participants' rights under the plan are equal to the fair value of the deferred account for each participant. All plan assets are stated at fair value. It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor.

Accordingly, the Plan-Trust Declaration has been prepared such that the plan's assets are held in trust, and reported as an expendable trust fund, for the exclusive benefit of participants and their beneficiaries.

The deferred compensation trust fund uses the calendar year for its fiscal reporting cycle. Certain amounts recorded as agency activity in the discretely presented components are held in trust by the Commonwealth.

The Treasurer and Receiver General (Treasurer) of the Commonwealth of Massachusetts is the plan trustee. Per statute, the Treasurer is given authority, on behalf of the Commonwealth, to contract with state employees to defer a portion of those employees' compensation, and for the purposes of funding a deferred compensation program for the said employees to invest the deferred portion of the employees' income.

12. LEASES

Primary Government –

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease/purchase (TELP) agreements which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature. For fiscal year ended June 30, 1999, capital lease/purchase expenditures totaled approximately $63,404,000.

At June 30, 1999, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals approximately $77,983,000. This liability is reported in the General Long-term Obligations Account Group. Equipment acquired under capital leases and is included in the General Fixed Assets Account Group totaled approximately $143,436,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements with varying terms. These agreements contain provisions indicating that their continuation is subject to appropriation by the Legislature. Rental expenditures for the fiscal year ended June 30, 1999 were approximately $121,003,000.

The following is a schedule of future minimum payments under non-cancelable leases for the Commonwealth as of June 30, 1999 (amounts in thousands):

Years Ending June 30,	Capital Leases	Operating Leases
2000	$ 27,910	$ 101,120
2001	23,278	81,377
2002	16,371	65,703
2003	10,761	46,649
2004	5,142	19,239
2005 and thereafter	9,636	32,739
Total payments	93,098	$ 346,827
Less interest	(15,115)	
Present value	$ 77,983	

University and College Fund – At June 30, 1999, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled approximately $80,894,000. Equipment acquired under capital leases is included in University and College Fund fixed assets.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expenditures for the fiscal year ended June 30, 1999 were approximately $15,276,000.

The following schedule summarizes future minimum payments under non-cancelable leases for the University and College Fund Type (amounts in thousands):

Years Ending June 30,	Capital Leases	Operating Leases
2000	$ 18,824	$ 9,494
2001	15,580	8,113
2002	12,878	7,106
2003	11,597	5,128
2004	9,805	5,129
2005 and thereafter	27,234	9,121
Total payments	95,918	$ 44,091
Less amount representing interest	(15,024)	
Present value of minimum lease payments	$ 80,894	

Component Units –

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 1999 (amounts in thousands):

Years Ending June 30,	MBTA	RTAs	MDFA	Economic Development Authorities
2000	$ 34,205	$ 712	$120	$18
2001	34,234	712	38	7
2002	43,825	712	16	1
2003	46,773	712	-	-
2004	48,380	712	-	-
2005 and thereafter	718,113	2,135	-	-
Total payments	925,530	5,695	174	26
Less amount representing interest	(393,280)	(1,118)	(9)	(3)
Present value of net minimum lease payments	$ 532,250	$ 4,577	$165	$23

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which has been accounted for as operating leases. These leases expire through fiscal year 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2003. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were approximately $960,000 of which $798,000 was paid to the Commonwealth for office space in a state-owned building.

The MTA leases property and air rights to others. The MTA earned approximately $6,585,000 in rental income. Rental income for the next five years is expected to approximate $7,000,000 per year based on leases currently in effect.

The Economic Development Authorities and the RTAs have operating leases for office space.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

Years Ending June 30,	MBTA	MTA	RTAs	MDFA	MTPC	Economic Development Authorities
2000	$ 13,462	$ 1,176	$ 227	$ 499	$ 1,000	$ 2,150
2001	13,391	941	15	514	1,000	2,089
2002	13,382	941	15	519	333	1,988
2003	14,071	941	15	298	-	1,311
2004	13,651	941	15	-	-	202
2005 and thereafter	110,257	-	360	-	-	-
Total payments	$178,214	$ 4,940	$ 647	$ 1,830	$ 2,333	$ 7,740

13. COMMITMENTS

Primary Government –

Governmental Funds – Under Chapters 161A and 161B of the General Laws, the Commonwealth is obligated to provide annual subsidies to the MBTA and certain regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1999, these subsidies totaled approximately $716,286,000 for the MBTA and approximately $60,183,000 for the RTAs.

The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1999, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of approximately $296,123,000 and due to RTAs of approximately $61,047,000.

The cities and towns served by the MBTA and RTAs will be assessed their proportionate shares of the net cost of service. At June 30, 1999, the MBTA has a receivable from cities and towns of approximately $92,628,000 to account for these future reimbursements. At June 30, 1999 MBTA has also recorded net deferred charges of approximately $64,783,000 at June 30, 1999, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA, the Massachusetts Development Finance Authority and the Water Pollution Abatement Trust. Such assistance totaled approximately $63,467,000 in fiscal year 1999. For fiscal year 2000, appropriations for this purpose total approximately $76,853,000.

At June 30, 1999, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately $3,569,077,000 long-term and $396,441,000 short-term. In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities. The guaranteed long-term debt outstanding at June 30, 1999 was approximately $216,206,000.

At June 30, 1999, the Commonwealth had commitments of approximately $3,027,529,000 related to construction projects in process. The majority relate to construction funding the Central Artery/Tunnel Project (CA/T). The CA/T Project continues to anticipate federal participation as well as payments from the MTA and the Massachusetts Port Authority (MassPort).

During fiscal year 1999, the Commonwealth received payments from the MTA and MassPort. Pursuant to three separate memoranda of understandings dated September 12, 1997 and August 13, 1998 and February 19, 1999 respectively. The MTA and MassPort made payments to the Commonwealth to finance portions of the CA/T Project in the amount of approximately $1,051,000,000 and $30,735,000 respectively.

The remaining future payments are as follows (amounts in thousands):

Fiscal Year	MTA	MassPort
2000…………………	$100,000	$52,236
2001…………………	-	-
2002…………………	-	-
2003…………………	-	104,914
2004…………………	-	50,000
2005…………………	-	50,000
Total…………………	$100,000	$257,150

The Commonwealth recognizes payments from the MTA in the period when the use of the resources is required or first permitted.

The payment of $1,051,000,000 in fiscal 1999 is presented as a "transfer in from Component Units" in the Capital Projects Fund. The MTA capitalizes the payment as an increase to its fixed assets and accordingly do not present a matching "transfer to Primary Government".

MassPort payments are treated as an exchange transaction. Revenue is recognized when payment is received or when assets have been transferred.

Pension Trust Funds – At June 30, 1999, PRIT had outstanding commitments to invest approximately $115,000,000 in real estate, and approximately $943,549,000 in alternative investments.

Component Units -

Chapter 152 of the Acts of 1997 provides $609,400,000 for the construction of a Convention and Exhibition Center which will provide 600,000 square feet of exhibit space at a site in South Boston. The Boston Redevelopment Authority (BRA) is authorized and directed by the legislation to acquire the land, properties, and rights related to the proposed construction site. Once this is accomplished, the MCCA will oversee construction of the new facility. The MCCA will operate the new center, along with the Hynes Convention Center, the Boston Common Garage, and the Springfield Civic Center.

As of June 30, 1999, the MWPAT has agreed to provide loans of $122,000,000 to various local government units to be funded with grant awards received through June 30, 1999.

Massachusetts Housing Partnership Fund (MHP) has executed twenty-three loan agreements with seventeen banks totaling approximately $340,827,000 pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act. Related to that, MHP has funding commitments outstanding for funds not yet advanced of approximately $39,114,000 at June 30, 1999.

The MTA entered into construction contracts for the Metropolitan Highway system and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31,1998 approximated $9,800,000. Projected construction expenses for calendar 1999 approximate $47,600,000.

The Worcester Regional Transit Authority (WRTA) has executed a cooperation agreement with the Worcester Redevelopment Authority (WRA) for the development of an intermodal transportation center at the Union Station site. The WRTA will fund the costs related to the design and renovation of the Union Station site through federal and state grants. The WRA is the owner and will be the operator of the intermodal transportation center. Once the development of the site is complete, the WRTA will transfer the cost of the project to the WRA.

14. CONTINGENCIES

Primary Government -

Governmental Funds – The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance, which are managed in its Internal Service Funds. A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately $32,700,000 to be paid from the General Fund. The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. As of June 30, 1999, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets, less $4,742,000 which is expected to be reclaimed and paid in fiscal year 2000, are to be remitted to the General Fund each June 30, where it is included as a transfer. Amounts remitted during fiscal year 1999 totaled approximately $64,723,000. Since inception, approximately $821,616,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

Unclaimed Check Fund – In February 1999 former employees of the State Treasurer's Office were charged with attempting to embezzle $6,500,000 from the Unclaimed Check fund. These funds have been recovered by the Commonwealth. The Attorney General is conducting a criminal investigation of the matter and believes that the likelihood of loss by the Commonwealth in excess of $20,000,000 is remote. The grand jury formally indicted the individuals in September 1999.

Tobacco Settlement – On November 23, 1998, the Commonwealth joined a multi-state agreement, known as the Master Settlement Agreement (MSA) which resolved the Commonwealth's and other states' litigation against the cigarette industry. Under the MSA, annual payments are made to each settling state, including the Commonwealth in perpetuity. The Superior Court of the Commonwealth, approved the MSA and entered a Consent Decree and Final Judgement on December 4, 1998. The 60-day appeal period for these orders expired on February 2, 1999 with no appeal filed.

Under the MSA, there are five "initial payments" to be paid annually by the cigarette industry to the Commonwealth. In December 1999, the Commonwealth received approximately $99,700,000. In addition, a separate stream of annual payments is made in perpetuity. These payments should begin no later than July 15, 2000. On December 28, 1998, the companies timely made their first payment into the escrow account established under the MSA, in the amount of $2,400,000,000, which is to be apportioned among the states that have settled, including the Commonwealth.

The Commonwealth's allocable share of the total amounts payable under the MSA is 4.038979%. The Attorney General has estimated that over the initial 25-year period, $7,590,000,000 could be received under the settlement. The annual payment for calendar 2000 and beyond is approximately $259,000,000.

The annual payments under the MSA are subject to various adjustments and contingencies. The initial adjustment will be upward by 3% or the amount of the Consumer Price Index (whichever is greater). Other adjustments might occur based on changes in domestic cigarette sales volume or, as a decrease, based upon funding made available to the states under qualifying federal legislation.

The MSA includes a secondary fund, a "Strategic Contribution" fund, totaling $8,610,000,000. Proceeds will be allocated, based on an arbitration decision on May 21, 1999 to the states over the period 2008 through 2017. Massachusetts was awarded $414,000,000, which will be payable in equal installments during the years 2008 through 2017.

The amounts that might be payable, if any, by the Commonwealth for the legal costs incurred in relation to the tobacco litigation cannot be determined at this time.

In the various budgets submitted for fiscal 2000 from the Governor, the General Court and the Senate, all agree that health care initiatives in the Commonwealth would be the major beneficiary of settlement funds. The Budgets differ as to timing, mechanism and allocation.

Internal Service Fund **-** It is the policy of the Commonwealth of Massachusetts to manage its risks internally and self-insure for claim settlements for risk of loss relating to workers' compensation for the state employees and group health insurance in its Internal Service Fund. The Internal Service Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on actual claims paid during the year. All risk financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include amounts for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Employees Workers' Compensation and Group Health Insurance costs for Commonwealth employees are recognized when losses are incurred. The Commonwealth's outstanding liability for such losses at June 30, 1999, including claims incurred but not reported, is estimated to be $290,948,000.

Central Artery/Tunnel Project **-** The Commonwealth has assumed responsibility for providing workers' compensation and general liability insurance coverage for all contractors and subcontractors working on the Central Artery/Tunnel Project by implementing an Owner Controlled Insurance Program (OCIP). As part of its initial financial planning, Project management determined that an OCIP could provide necessary insurance coverage at a substantially lower aggregate cost than could be obtained if each contractor purchased coverage separately, because of economies of scale in the purchase of coverage from a single carrier, elimination of cross claims among contractors, and implementation of a cost-effective safety and loss control program for the entire Project.

The OCIP is presently structured as a retrospectively rated insurance program with loss retention (or deductible) levels of $1,000,000 per claim, $3,000,000 per occurrence for workers compensation and $2,000,000 per claim, $6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these deductible levels.

As part of the OCIP, the Project has agreed to establish and fund a Trust, held by an independent third party Trustee, in an amount necessary to cover the Project's potential cumulative liabilities to the carrier for these loss costs, administrative expenses and certain defined contingencies under the OCIP. The OCIP is expected to cover such costs through the construction period and through the period after the construction during which all claims will be resolved and paid, referred to as the "tail period".

The amounts payable annually to the Trust for workers' compensation coverage are based on standard premium at rates approved by the Insurance Commissioner. The Project pays general liability premiums at negotiated rates directly to the insurance carrier, which holds the premium for three years, after which the amounts may be transferred to (or from) the Trust based on loss experience for that year. In addition, the Trust earns investment income, part of which is paid to the carrier as part of its compensation and the remainder is credited to the Project and held in the Trust to cover the Project's cumulative obligations. The amount in the Trust are restricted by its terms and cannot be used for other purposes. Any amounts which remain in the Trust after all losses and other obligations of the Project are paid, will be re-paid to the Project for distribution in accordance with funding agreements with the federal government.

The Project's OCIP activity is reported as an Internal Service Fund. The "Claims and Judgement liabilities" reported therein represents the Project's liabilities as estimated by the carrier for incurred losses as of the end of the fiscal year. The Internal Service Fund also includes amounts set aside in the Trust to cover the Project's cumulative workers' compensation loss and general liability premium obligations from the inception of the OCIP (1992) through the end of the tail period.

The estimated liabilities shown in the table below represents its insurance carrier's estimate of liability based on experience to date and the cumulative maximum potential obligations, as of June 30, 1999 and through the end of the tail period respectively. (Amounts in thousands)

	Liability Recorded as of 6/30/99	Maximum Potential Obligation As of 6/30/99	Maximum Potential Obligation End of Project
General Liability	$44,103	$133,900	$259,715
Workers' Compensation Liabilities	77,028	192,900	359,423
Total	$121,131	$326,800	$619,138

The liability column represents estimates of liabilities incurred based on past experience, both reported or not reported as of June 30, 1999. The maximum potential obligation represents the carriers' estimated potential reimbursable losses and premium.

In addition, the Commonwealth and the insurance carrier are in the process of negotiating an agreement that has potential of crediting approximately $5,183,000 in interest and $33,923,000 in reserve balance to the Trust. It is estimated that the agreement will be finalized by end of the fiscal year 2000.

Claims and Judgements **-** Changes in the balance of claims and judgements liabilities for the primary government during fiscal 1999 were as follows (amounts in thousands):

	1999	1998
Liability, beginning of year.................	$ 575,465	$ 602,181
Current year claims and changes in estimates................	800,173	806,864
Claims payments................................	(854,576)	(833,580)
Liability, end of year............................	$ 521,062	$ 575,465

Component Units - The MBTA reserves self-insurance liabilities as claims and judgements as of June 30, 1999. Changes in the self-insurance reserves in fiscal 1999 were as follows (amounts in thousands):

	1999	1998
Liablility, beginning of year................	$69,820	$ 69,732
Current year claims and changes in estimates.................	75,267	71,127
Claims payments................................	(71,869)	(71,039)
Liability, end of year............................	$ 73,218	$ 69,820

Other Contingencies **-** The Massachusetts Turnpike Authority has obtained health coverage for most employees through various commercial health maintenance organizations. The health coverage for certain other employees, as well as coverage for job-related injuries to all employees, is self-insured by the Authority, with risks managed internally. At December 31, 1999, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately $14,000,000.

Higher Education - During fiscal year 1998, UMass Memorial Health Care, Inc., (UMass Memorial) a non-related party was created to merge all of the subsidiaries to the UMass Health System. In connection with this merger, the University of Massachusetts and UMass Memorial have entered into the following agreements:

UMass Memorial is granted the right to occupy portions of the UMass campus for a period of 99 years and UMass Memorial agrees to share responsibility for various capital and operating expenses relating to the occupied premises. UMass Memorial also agreed to make up to $4,000,000 in capital improvements to shared facilities over the next four years.

UMass Memorial agrees to make certain payments to UMass and its related organizations, including: 1) an annual fee of $12,000,000 (plus an inflation adjustment), for 99 years as long as UMass continues to operate a medical school; 2) a percent of net operating income of UMass Memorial based upon an agreed-upon formula; and 3) a $31,500,000 contribution plus interest by UMass Memorial to jointly fund and develop a new research facility with UMass. UMass will own and control the research facility.

UMass will lease certain employees to UMass Memorial or its affiliates during a transition period ending 2008.

All academic funds (net assets) held by the Capital division as of March 31, 1998 (Departmental Education

Funds) will remain assets of UMass and will be held by UMass Memorial for UMass and allocated to each academic department. The cash will be transferred by UMass Memorial to UMass over five years. At June 30, 1999, UMass has recorded a receivable from UMass Memorial in the amount of $22,600,000 related to these funds.

UMass is reimbursed by, and reimburses, UMass Memorial for certain services provided and purchased. For the fiscal year ended June 30, 1999, the revenues for services provided to UMass Memorial were $240,300,000. At June 30, 1999, UMass has recorded a receivable in the amount of $109,800,000 from UMass Memorial for costs related to shared services, leased employees, and other agreed-upon payments due to UMass. UMass has recorded a payable at June 30, 1999 of $20,800,000 for amounts due to UMass Memorial for shared services and other agreed-upon payments due to UMass Memorial.

15. SUBSEQUENT EVENTS

State Taxes

The fiscal 2000 budget contains several tax law changes, two of which reduce tax revenues in fiscal 2000. The income tax rate has been reduced from 5.95% to 5.85%, effective January 1, 2000; 5.80% effective January 1, 2001; and 5.75% effective January 1, 2002. A second set of provisions that is expected to effect revenue collections in fiscal 2000 allows taxpayers, retroactive to 1996, to use capital losses more comprehensively to offset capital gains, interest and dividend income.

Massachusetts Bay Transportation Authority

On November 16, 1999, the Governor approved legislation which rewrote the MBTAs enabling act and contained “forward funding” provisions for the MBTA. Under the new enabling act, which will take effect in fiscal year 2001, the Commonwealth’s annual obligation to support the MBTA for operating costs and debt service will be limited to a portion of the revenues raised by the Commonwealth’s sales tax, to be funded from existing sales tax receipts. The sales tax amount, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, will be dedicated to the MBTA under a trust fund mechanism that will not permit future legislatures to divert the funds. The dedicated revenue stream will be disbursed to the MBTA without state appropriation to be used to meet the Commonwealth’s current debt service contract assistance obligations relating to MBTA debt and to meet the MBTA’s other operating and debt service needs. The Commonwealth will not be liable to pay the MBTA’s net cost of service, nor will the Commonwealth be liable for debt service contract assistance on MBTA bonds issued after June 30, 2000.
To replace the working capital of the MBTA currently supplied by operating notes and cash advances from the State Treasurer, the legislation authorizes the Commonwealth to issue up to $800,000,000 in general obligation bonds. The new enabling act expands the number of cities and towns required to pay annual assessments to the MBTA, but reduces the aggregate amount of assessments to approximately $136,000,000, to be phased in over five years. After the phase-in, aggregate assessments will be adjusted annually for inflation but will not be permitted to increase by more than 2.5% per year.

The legislation also restructures the MBTA’s board of directors and advisory board. The legislation provides that in order to draw down dedicated sales tax receipts or municipal assessments from the state treasury, the MBTA must first certify that it has made provision in its annual budget for sufficient amounts to be available to meet debt service payments or other payments due under financing obligations for which the Commonwealth has pledged its credit or contract assistance or is otherwise liable or as to which the MBTA has covenanted to maintain net cost of service or contract assistance support. The new enabling act also provides explicitly that to the extent the dedicated sales tax receipts and municipal assessments are insufficient in any year to meet the MBTA’s debt service payments with respect to such obligations, the Commonwealth shall remain liable for the payment of such obligations or the provision of net cost of service or contract assistance support as to such obligations to the same extent as before the enactment of the legislation. The amount of any support provided to the MBTA beyond the dedicated sales tax receipts and municipal assessments is to be in the form of a no-interest loan repayable within five years from the MBTA’s system revenues and the dedicated sales tax receipts and municipal assessments.

MWPAT -

On July 8, 1999, the MWPAT received notification of approval from the EPA for the 1999 Clean Water Capitalization Grant. This grant of $45,700,000 was matched with $9,100,000 of funds on hand for state matching purposes.